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IRS News Release

Media Relations Office **Washington, D.C.** **Tel. 202.622.4000**
For Release: 11/07/01 **Release No: IR-2001-107**

EMPLOYEES SHOULD PLAN 2002 RETIREMENT CONTRIBUTIONS NOW TO GET FULL BENEFIT OF THE NEW SAVER'S TAX CREDIT

WASHINGTON – Qualifying employees should make plans now to benefit from the new Saver's Credit next year, the Internal Revenue Service advises. This tax credit, which will be available only from 2002 through 2006, will help offset the cost of the first $2,000 contributed to IRAs, 401(k)s and certain other retirement plans.

"The credit encourages saving for retirement," said IRS Commissioner Charles O. Rossotti. "We want workers to know about the Saver's Credit so they can take full advantage of it."

Employees in 401(k) plans may want to set up their 2002 deferral elections before January so that they can spread their contributions throughout the year.

The Saver's Credit applies to individuals with incomes up to $25,000 ($37,500 for a head of household) and married couples with incomes up to $50,000. The taxpayer must also be at least age 18, not a full-time student, and not claimed as a dependent on another person's return.

The credit is a percentage of the qualifying contribution amount, with the highest rate for taxpayers with the least income, as shown in this chart:

Credit Rate	*Income*:	*Married, Joint*	*Head of Household*	*Others*
50%		up to $30,000	up to $22,500	up to $15,000
20%		$30,001 – 32,500	$22,501 - $24,375	$15,001 – 16,250
10%		$32,501 – 50,000	$24,376 - $37,500	$16,251 – 25,000

When figuring the Saver's Credit, taxpayers who have received distributions from their retirement plans generally must subtract these amounts from their contributions. This rule applies for distributions starting two years before the year the credit is claimed and ending with the filing deadline for that tax return. For 2002, a taxpayer subtracts distributions received from Jan. 1, 2000, through Apr. 15, 2003, from the total 2002 retirement contributions, then multiplies the result (but not more than $2,000) by the credit rate applicable for the taxpayer's filing status and income level.

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The subtraction rule does not apply to distributions which are rolled over into another plan, nor to withdrawals of excess contributions.

The Saver's Credit is in addition to whatever other tax benefits may result from the retirement contributions. For example, most workers at these income levels may deduct all or part of their contributions to a traditional IRA. Contributions to a 401(k) plan are not subject to income tax until withdrawn from the plan.

The IRS recently published a series of questions and answers about the Saver's Credit. Announcement 2001-106 was in Internal Revenue Bulletin 2001-44, dated October 29. It is available through the IRS Web site at *www.irs.gov.*

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